

*Report to Audit Committee*

*of*

**Communities In Schools of North Carolina, Inc.**

*June 30, 2006*

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Communities In Schools of North Carolina, Inc.  
*Summary of Professional Services*  
June 30, 2006

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1 Annual audit of financial statements and  
issuance of reports thereon

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2 Attendance at Audit Committee Meeting as  
requested

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3 Preparation of tax return

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4 Consultation on accounting, tax, regulatory  
and operating matters as requested

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September 15, 2006

To the Audit Committee  
Communities in Schools of North Carolina, Inc.  
222 North Person Street  
Raleigh, NC 27601

Dear Audit Committee:

We have audited the financial statements of Communities in Schools of North Carolina, Inc. for the year ended June 30, 2006, and have issued our report thereon dated September 15, 2006. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated June 9, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Communities in Schools of North Carolina, Inc. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Communities in Schools of North Carolina, Inc.'s compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the Organization's financial statements and report does not extend beyond the financial information identified in our report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Communities in



Schools of North Carolina, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2006. We noted no transactions entered into by the Organization during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

#### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the allocation of costs.

Management's basis for allocating costs is based on the nature of the costs and management's judgment. We evaluated the key factors and assumptions used to develop the allocation method in determining that it is reasonable in relation to the financial statements taken as a whole.

#### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Organization's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Organization, either individually or in the aggregate, indicate matters that could have a significant effect on the Organization's financial reporting process.

#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.



The Audit Committee  
Communities in Schools of North Carolina, Inc.  
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**Issues Discussed Prior to Retention of Independent Auditors**

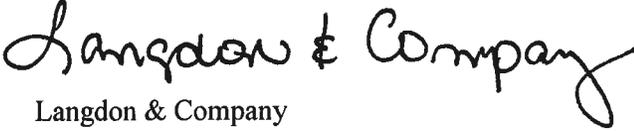
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

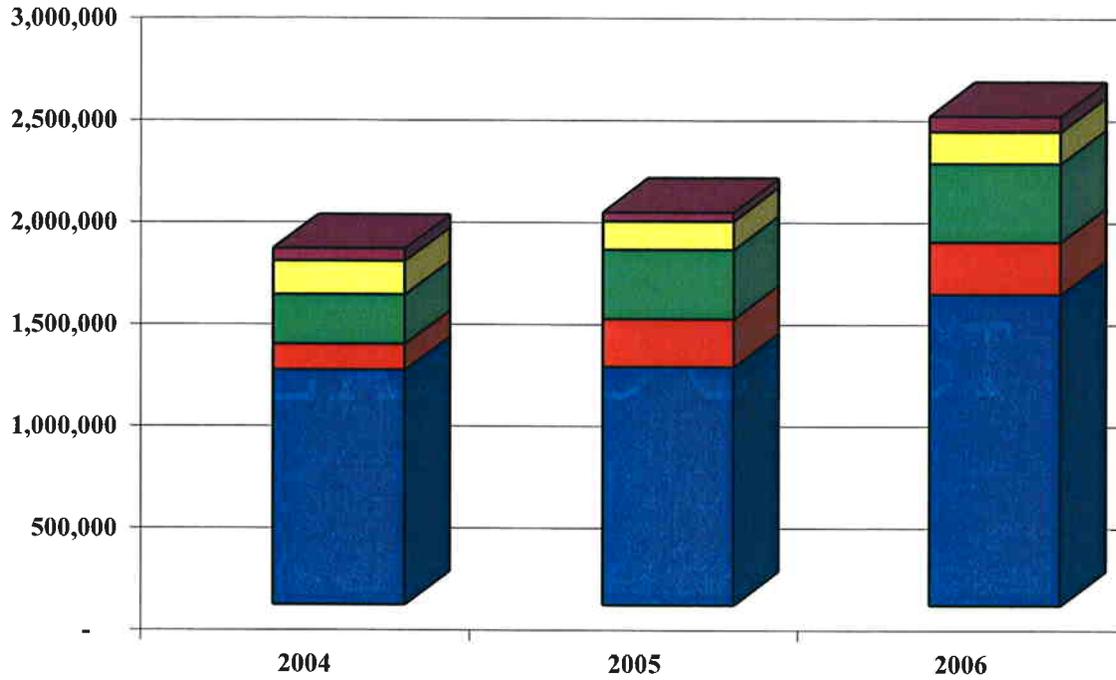
We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Audit Committee and management of Communities in Schools of North Carolina, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

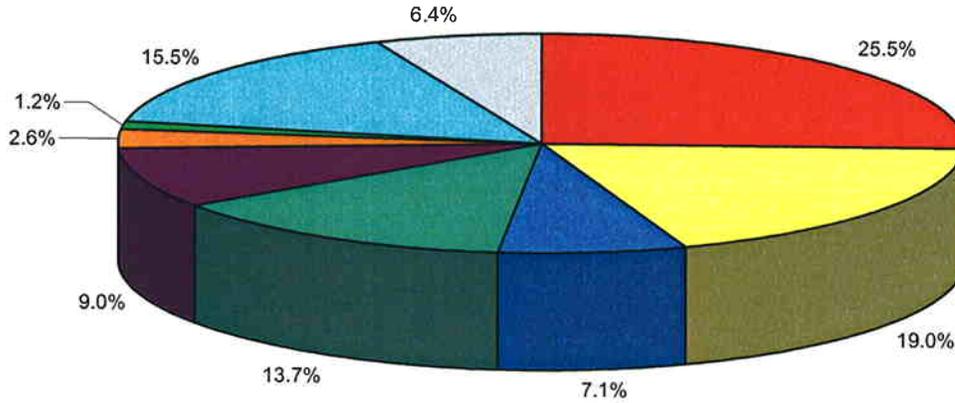
  
Langdon & Company

# Components of Revenue



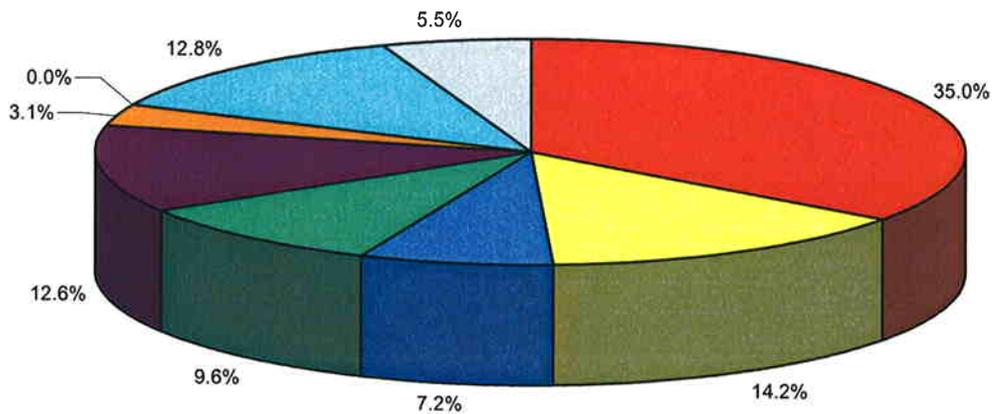
# Functional Expenses

2006



	<u>2006</u>	<u>2005</u>
DEVELOPMENT AND SUSTAINABILITY	\$ 570,289	\$ 665,260
DIRECT SUPPORT	454,219	271,392
REPLICATION	169,164	138,209
TRAINING	326,671	183,784
LOCAL PROGRAM VOLUNTEERS	213,568	241,599
COMMUNITY LEARNING CENTERS	62,063	59,909
PERFORMANCE LEARNING CENTERS	27,513	-
MANAGEMENT & GENERAL	410,506	245,464
FUND RAISING	151,860	105,442
	<u>\$ 2,385,853</u>	<u>\$ 1,911,059</u>

2005



## *Revenue and Expense Analysis*

